THE INCOME-TAX BILL.

Mr. Subba Aiyar in introducing the Income-Tax Bill spoke as follows:—

"Sir,

The levy of income-tax has been pressed upon the attention of Government in some of the sessions of the Sri Mulam Popular Assembly and I believe it was also interpellated upon by some members in this Council. I hope that the non-official members will welcome the measure and will be more charitable about the intention of Government, especially because the Bill proposes to tax those people who have not been paying anything at all to Government for the advantages they have been deriving. I refer to those classes of Government officers, lawyers, merchants and others who, if they do not own landed property, do not pay anything for the advantages they derive from the administration. It is such people that are intended to be taxed. Perhaps my non-official friends will ask: 'Is there any necessity for the Bill?' My friends know that the Salaries Committee has been appointed for revising the pay of officers. The expenditure on education has increased. The Chief Engineer has been complaining for want of adequate funds to meet the expenditure of his Department. The development of industries is awaiting more funds. All these, I am sure, my friends will grant, cannot be done without additional funds and cannot be satisfactorily met out of the existing revenue. They will be able to realise the situation better when they sit on the budget committee. I therefore think that there will be no serious objection to the introduction of this Bill.

The Bill proposes to tax certain classes of people and at various rates, the rates being increased in proportion to the amount of income. So far as the income from salaries is concerned there cannot be any grievance. The tax on income from salaries could be collected when the salaries are disbursed whether it is the Government or a private company. So far as the business people are concerned, there could be no inconvenience for the reason that the profits of the previous year will be taken into consideration. If at the end of the year the profits fall, a refund may be claimed and provision is made for such refund. The Bill follows, as far as possible, Act VII of 1918. The minimum qulification for being taxed is that the income should be above Rs. 1,250. The Bill exempts agricultural income, income derived from charitable institutions and certain other items. Inasmuch as the Bill has been introduced at the request of the members of the Assembly and the non-official members of this council, I do not think it necessary to say anything more about it. With these words, I beg to move that the principle of the Bill be affirmed".

Mr. George:—

"Sir,

In rising to second this motion, I should like to say a few words on the purely financial side of the question. The imposition of any new tax and particularly of a tax like the income-tax with its possibly harassing and inquisitorial processes can be justified only on the ground of urgent public necessity. In this State, although the levy of income-tax has been talked of now and then, and has also been the subject of representations in the Popular Assembly in the past, we have been so far fortunate in being able to postpone the evil day; but I shall endeavour to show the Council by a brief review of our present financial position and our future financial outlook that imposition of new taxes in the State has become a matter of pressing necessity.

Sir, to the casual observer it might seem that the present financial position of the State is not only sound, but is unassailably strong. It will be seen from our annual financial statements that we have been piling up large surpluses year after year from 1096. In 1091 we had a surplus of Rs. 7 lakhs, in 1092 of Rs. 10 lakhs, in 1093 Rs. 4¼ lakhs, in 1094 Rs. 20 lakhs and in 1095 Rs. 8½ lakhs.

These are no doubt very satisfactory. But, Sir, we must look at the genesis of these surpluses. It is true that there has been a marked improvement in our revenue during these years. While the war hit us hard in various ways, it did not, except for the years 1090 and 1091, severely affect our internal trade and prosperity. In 1089, we realised a total revenue of nearly Rs. 155 lakhs. This fell to Rs. 149 lakhs in 1090, but rose to Rs. 153 lakhs in 1091. Subsequently the revenue has been steadily increasing until it rose to Rs. 185½ lakhs in 1095. On the other side, our expenditure was fixed with extreme caution; and rigid economy was enforced in all departments. The Heads of the various Departments of the State will, if asked, bear testimony to what I have said. The Chief Engineer can tell you how his Department was practically starved during these years. In the years 1089 and 1090, the public works expenditure in the State, including the expenditure on Maramath works, amounted to nearly Rs. 38 lakhs. A drastic curtailment of about Rs. 11 lakhs was made in 1091 and this was continued until the year 1094. Even yet the Department has not recovered its original allotment, the expected expenditure of the current year being about Rs. 35 lakhs. Reductions, but not to the same wholesale extent, were made in other Departments also. In the Educational Department, although

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increasing allotments were made year after year, the Director of Public Instruction had no money for essential equipment and for carrying out the maintenance and urgent repairs of many of his school-buildings.

Such was the source of our surpluses; but, Sir, I feel strongly that the severe economy exercised in these years will repay the Government amply during the coming years of gloomy financial outlook.

With 1096, we have entered on a distinctly new financial era. The war being over, the Government have felt bound to provide funds adequately for the various departments. For 1096, we budgetted for a surplus of nearly Rs. 2½ lakhs; but this, I am afraid, is going to turn into a deficit of nearly the same amount. It is not necessary to give at present any detailed explanation of how this result has come about. Such explanation will no doubt be given at the next meeting of this Council when the budget of the next year will be presented.

In this connection an examination of our revenue and expenditure of the years 1086 and 1096 will be very instructive.

In 1086 our revenue amounted to Rs. 1,28,09,000 and our expenditure to Rs. 1,19,22,000. The ratio of expenditure to revenue was 93·07. In 1096 our revenue is expected to rise to Rs. 1,90,49,000 or by 49 per cent. The expenditure, however, is expected to increase by 62 per cent. to Rs. 1,92,84,000 and the ratio of expenditure to revenue in 1096 will be about 101·23 per cent. In 1097 there is no likelihood of any material improvement in our position. Sir, this increased expenditure is not due to any extravagance on the part of our Departments, but is rather due to the requirements of progress and the economic stress of the present times. The cost of materials and labour has increased enormously, so that an increase of about 25 per cent. for the purpose is necessary in the grants to Departments if they have to maintain even the same state of efficiency as before. We have on the other hand not only to provide for the normal growth of our Departments, but have also to undertake a programme of special development in the Departments which contribute to the moral and material well-being of the people. Our Department of Education is already consuming 16 per cent. of our total revenues. In 1086, the gross expenditure on Education was only Rs. 8 lakhs. The expenditure in the current year will be about Rs. 31 lakhs. You are aware how this abnormal expenditure led to the appointment of a Committee by Government of which I was the convener to consider and report how all avoidable expenditure could be eliminated and what new sources of revenue could be found for the future development of the Department. We found that no substantial retrenchment was possible in the Department. On the contrary, we were led to the conclusion that Government would have to find, in future years, increasing funds for the development of education, especially of primary education.

And I may here tell you that the levy of income-tax was one of the means advocated by the Committee to raise the additional funds required to meet the growing educational expenditure. In the same way the Departments of Public Works, Agriculture and Industries will have to be given higher grants to carry out various essential schemes of development.

There is yet another matter which is going to cost the Government heavy expenditure. I have already referred to the large increase in wages. Government servants are also wage earners. The present high cost of living has hit them hard especially the lower subordinates; and the position became so acute that the Government had to grant to its subordinate officers drawing up to Rs. 55, a temporary scarcity allowance varying between Rs. 1½ and Rs. 5. This item alone comes to about Rs. 6½ lakhs a year. It does not look as if prices were going to show any appreciable fall, so that these allowances may be discontinued; on the contrary all experts agree that the present increased prices have come to stay, at least to a considerable extent. In view of this, the question of permanently increasing the salaries of the low paid servants is a problem that cannot be postponed any longer and as you are aware the Government have already appointed a Salaries Committee to consider this question.

Now, Sir, these are our immediate demands for additional expenditure and I think that the present disparity between our income and expenditure is going to be a permanent feature in our finances unless measures are speedily taken to prevent such a calamity.

Some of my friends will no doubt suggest that there is considerable room for retrenchment in various Departments and that the money saved thus should be given to Departments which require additional funds for development, and utilised for improving the salaries of low-paid officials. Sir, I firmly believe in the necessity of retrenchment and I am hopeful that the Salaries Committee which is now considering this question will find it possible to suggest some substantial economies in our present rate of expenditure. But, Sir, I have no hesitation to

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say that whatever retrenchments that Committee may suggest, they will not be adequate to provide the requisite funds even for the revision of salaries of the subordinates, at which question they are now engaged; much less then would they do for meeting the ever-growing needs of the several Departments. If then, the additional funds we require cannot, to any appreciable extent, be met by retrenchment, the only other course open to us is to increase the revenues of the State. No doubt, a portion of our growing expenditure will be met by our growing revenues. But I have already shown how, while expenditure between the years 1086 and 1096 increased by 62 per cent., the growth of revenue during this period was only 49 per cent. We have also to reckon with a fall in revenue in items like the sale of Government lands which now contributes annually about 3 lakhs. We are thus driven to the necessity of raising money by new taxation and every one will admit that a tax on incomes on the well-to-do classes of the State is the most unobjectionable tax that could be imposed in the country at the present time. Thus, Sir, the imposition of the income-tax is an urgent financial necessity and I therefore strongly commend the motion for the acceptance of this Council."

Mr. G. Parameswaran Pillai:—

SIR,

I am in full sympathy with the principle of the Bill now introduced by Mr. Subba Aiyar. It is common ground with the Government and the people that it would be advisable if possible not to go in for any fresh impost on land. The existing basis of taxation is not elastic enough to include non-agricultural incomes and unearned increments. The incidence of taxation presses more heavily on the poorer classes who now contribute more than their fair share towards the cost of the administration. As has been observed by you, Sir, in your address to the Popular Assembly, this tax has the merit of yielding a progressively growing income to the State as trade and business activities increase in the country. While I would accord my support to the principle, I should think that this is not the proper stage at which a Bill of this nature should be introduced in the Council. Before tapping an additional source of income, we have to examine whether the Government have attempted to effect all possible retrenchment consistent with efficiency in the public service. I must congratulate the Financial Secretary, and for that matter ourselves, for his giving us an insight into the present financial situation. This is not the occasion, nor have we got the facilities, to further examine the financial position. I wish, however, to point out in this connection that the complaint is levelled against Government that they are incurring heavy expenditure under various items which may well be avoided.

There is a vague public feeling that the Salaries Committee may confine their attention to effect retrenchment only in so far as the subordinate service is concerned and that it is not the function either of the Salaries Committee or the Efficiency Audit Officer to sift the condition of the higher ranks of public service. The people feel the weight of a top-heavy administration more than of a few ill-paid clerks or peons. These aspects can be profitably discussed only when the financial Statement is before us. It would have been desirable if the finance Bills had not preceded the Budget. I am glad, however, that the law member has no intention of moving suspension of rules and taking up this Bill for discussion at once. I must here state that I noticed a welcome change in the matter of the introduction of Finance Bills. The Financial Secretary had something to say on each Bill instead of the wonted silence of all official members except the law member. It would have been more proper if he had himself introduced these Bills instead of entrusting them to the law member.

Some of the provisions in the Bill stand in need of substantial modification. The lowest income that is taxed is Rs. 1,250 per annum. With the increase in the cost of living, a person having an income of even Rs. 150 per mensem cannot be said to be well off so as to justify a levy of income tax. According to the British Indian Act of 1921, the tax is levied only on a taxable income of Rs. 2,000 and above per annum. We should also not tax any income below that level. The other amendments may be made at subsequent stages of the Bill. Subject to the above observations, I support the principle of the Bill.

Mr. Raman Tampi:—

"I also support the principle of the Bill".

Mr. Nidiry:—

"If it is necessary to have recourse to additional taxation to meet the ever-increasing demands of a progressive administration, it is certainly the income-tax that should be resorted to at first rather than the petty tolls and cesses that are unnecessarily harassing the people. But, as I have already said in another connection, I would have welcomed the introduction of this Bill along with the budget. But since we have had the advantage of hearing the Financial Secretary's statement in regard to the financial situation, I think we can proceed to accept the principle of the Bill without any further discussion.

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Of course there is in the working of the Bill likely to be plenty of scope for corruption and hardship and due protection should be made in the rules, etc., that are to be passed under the Bill. These are matters which should be reserved for consideration at the further stages of the Bill. I accept the principle of the Bill."

Mr. Subrahmanya Pillai:—

"Sir,

I have very great pleasure in supporting the principle of the Bill. The inequality in the incidence of taxation has been repeatedly pointed out to the Government in various sessions of the S. M. P. Assembly and I am glad that they have taken up the question at least now. That the Government were always in want of funds is no secret and their policy hitherto has been to have recourse to some taxation that would fall heavily upon the landholders. Government in their address to the last session of the S. M. P. Assembly have clearly pointed out their future policy and have defined a certain programme of work. That address, I know, gave entire satisfaction to the public and they were well pleased with the programme of work mentioned in it. For my part, I have great misgivings as to how the Government are going to find funds for all that, if they do not want to disappoint the people. Any how I can safely assure the Government that the public will be ready to co-operate with Government in finding funds for a progressive administration, provided the means of collecting such funds do not fall heavily upon the poor and the already overburdened."

Mr. Subba Aiyar's motion was carried.

President:—

"We have next to appoint a Select Committee for considering the provisions of the Bill."

Mr. Raman Tampi:—

"With regard to the appointment of a Select Committee for the consideration of the Bill, I would suggest that since, unlike other Bills, the Bill is dealing with the imposition of tax of a novel kind and since it is going to affect all classes of people, the Committee may be made as large as possible."

President—"I think that this may be done."

Mr. Subba Aiyar next moved that the Bill be referred to a Select Committee consisting of Messrs. Subrahmanya Pillai, Nidiry, Raman Tampi, Adam Sait, George, Ranga-swami Aiyangar and the mover to report within one month.

Seconded by Mr. G. Parameswaran Pillai."

Carried.

THE NAIR REGULATION AMENDMENT BILL.

Mr. Raman Tampi, in introducing a Bill to amend the Nair Regulation, I of 1088, spoke as follows:—

"Sir,

In rising to introduce this Bill scheduled against my name I have to make a few general observations on the provisions contained therein.

The subject of amending this Regulation has been engaging the attention of the Nair Community even before I asked for leave to introduce a Bill in the late Council. With my application for leave, and publication of my first draft Bill, different sections of the community began to give expression to their opinions. It was found that an all-round revision of the Regulation was desired and hence I sought permission to withdraw my original Bill which purported to amend only specific portions of the Regulation.

In preparing my revised Bill which was duly published and is about to be introduced in the Council, I gave my best consideration to all shades of criticisms that appeared in the press and expressed on the platforms and I have sincerly tried to meet reasonable and legitimate criticism. I will, with the permission of the Council, proceed to describe, as shortly as possible, the scheme of the proposed law.

In regard to Chapter I which deals with the definitions, there is no serious disagreement. There seems to be some misconception with regard to the scope of the definition of the word "Nair". In some courts, questions appeared to have been raised whether Vilakathalavans and Veluthedans (barbers and washermen) are Nairs and whether the provisions of the Regulation apply to them. Any one who is conversant with the usages amongst the people of this country can well see that neither the Vilakkathalavan nor the washerman is recognised as a Nair. The Travancore Marumakkathayam Committee's Report, at page 13, paragraph 24, considers this question. Of the 18 classes of sudras referred to in the work called "Keralavakasakramam" and in the State Manual, the Committee was of opinion that only the first fourteen are, by custom, recognised as Nairs. The remaining four, *viz.*, Tarakan, Vilakkathalavan, Veluthedan and Chalian are ruled out. Similarly, in the report of the Cochin Nair Regulation Committee, at page 6,

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